

It works.

2011-2012 UPDATE

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**A Message from The Duluth Economic
Development Authority Leadership**

Dear friends,

It is great to end on a high note, and that is what the Duluth Economic Development Authority (DEDA) did in 2011 with great potential in 2012. After years of marketing the vacated Northwest Airlines Maintenance Base and seeking the right business for the space, DEDA spent the final days of 2011 negotiating an agreement with AAR, a national company specializing in aircraft maintenance and repair operations, to occupy the 189,000-square-foot facility. With a deal now in place, the hangar and tarmac soon will be bustling once again with up to 250 aircraft maintenance and repair professionals—doing the work they love and were trained to perform.

These are challenging times economically, yet Duluth is experiencing business growth and job creation. Recruiting AAR is just one of many examples. Achievements in 2011 and 2012 point to DEDA's ability to think creatively, move proactively, and respond nimbly to meet the needs of business in ways that support the public good. This report highlights many of those successes.

As the City of Duluth's economic development agent, DEDA works to stimulate business investment, expand economic prosperity, and grow the local tax base. Currently, DEDA's makeup emphasizes return on investment, private sector leadership and strengthening relationships with the business community.

DEDA staff and board members work closely with the City administration, the City Council, local development groups, and the community as a whole to improve opportunities in Duluth. These partnerships are paying off with a vibrant, diversified economy and business climate that creates jobs, builds prosperity, and secures a strong tax base to fund vital City services.

Heading into the future, it is important to stay focused and optimistic. That is easy to do as we ride current successes, but we cannot get complacent. There is much work to be done. Thank you for supporting economic development in Duluth. It is important that you make DEDA your business.



Brian Hanson,
Executive Director



John Heino,
DEDA President 2011



Don Monaco,
DEDA President 2012



Working to grow the economy.

Business owners consider many factors when deciding where to locate or grow their companies. One reason many find Duluth attractive is its business-friendly environment with public and private sector economic development partners eager to assist in getting projects off the ground. The Duluth Economic Development Authority (DEDA) is one of those partners.

Mission

DEDA's mission is to drive economic prosperity in the City of Duluth.

Strategies

DEDA accomplishes its mission by leading significant development initiatives, being a catalyst for sustainable development and redevelopment, and prudently investing unique resources that leverage other investments.



Outcomes

DEDA's actions result in the following returns on investment:

- High quality employment opportunities
- Increased revenue
- Population growth

Values

DEDA's actions are based on the following values:

- Balance risk and return on investment
- Partner in a collaborative manner
- Provide prudent stewardship over public resources
- Leverage our region's unique economic and environmental assets
- Respect the culture and people that make Duluth special
- Recognize the unique contributions of public and private partners

Empowered to promote prosperity

DEDA exists to make Duluth a more prosperous place for people to live and work. The Minnesota Legislature granted cities the power to create economic development authorities in the late 1980s. Under state law, DEDA has effective tools to use for the public good:

- Enter into contracts, including buying and selling property
- Make loans and grants to businesses
- Provide guarantees or credit enhancements
- Issue general obligation bonds (with approval) and revenue bonds
- Utilize tax increment financing
- Exercise eminent domain (with approval)
- Accept public land
- Establish foreign trade zones

Whether it is buying or selling property to assist a large development or making loans and grants to small businesses, DEDA supports projects that generate significant return on investment, serves the entire community, and works for Duluth.

Structured for sound decisions

DEDA's seven-member Board meets monthly to set policy and oversee activities. Commissioners are appointed by the Mayor for staggered three-year terms and represent both public and private sector interests. Makeup of the DEDA Board has evolved over time. It currently includes three City Councilors and four area business leaders. Members are chosen to reflect diverse backgrounds, political perspectives, and experiences for a balanced and responsible approach to economic development.

DEDA is staffed by the City of Duluth's Business and Community Development Department. Staff members frequently consult with Commissioners between meetings to tap their professional insight and expertise on proposed economic development projects. They also provide regular updates to the Mayor and City Council.

2011 DEDA Commissioners

- Jeff Anderson, Councilor at Large
- Tony Cuneo, Councilor at Large
- Todd Fedora, Councilor-First District
- John Heino, President, DEDA, & President, CEO of Como Oil & Propane
- Don Monaco, Owner, Monaco Air Duluth
- Nancy Aronson Norr, Manager, Regional Development, Minnesota Power
- Christine Townsend, Financial Services Professional, New York Life

2012 DEDA Commissioners

- Jay Fosle, Councilor-Fourth District
- Dan Hartman, Councilor at Large
- John Heino, Business Consultant
- Emily Larson, Councilor at Large
- Don Monaco, President, DEDA, and Owner, Monaco Air Duluth
- Nancy Aronson Norr, Director, Regional Development, Minnesota Power
- Christine Townsend, Benefits Counselor, Integrity Benefits

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Including seasoned business professionals on DEDA helps the Board identify creative, effective financing vehicles and incentives, base its decisions on sound, real-world business practices, and respond quickly to create opportunities in Duluth. This is balanced by City Councilors, who provide oversight, ensure accountability, and serve as liaisons to the full Duluth City Council and the public.

Don Monaco, President, DEDA

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DEDA Works — RECRUITING BUSINESS

AAR Lands in Duluth

Economic developers always dream of landing the big one. That wish came true for DEDA in April 2012 as AAR and the City of Duluth signed a Letter of Intent to expand AAR's aircraft maintenance operations in the former Northwest Airlines Maintenance facility. The agreement will return the facility to its original purpose—a place where skilled aircraft mechanics and engineers will perform maintenance, repair, and overhaul services for commercial aircraft. It is expected to create more than 200 well-paying jobs.

AAR began exploring Duluth in the spring of 2011 after meeting Brian Hanson, Executive Director of DEDA, and Rob West, President and CEO of Area Partnership for Economic Expansion (APEX), at an industry conference. Hanson, West, and Brian Ryks, Executive Director of the Duluth Airport Authority, led a team that worked directly with AAR and secured its expansion to Duluth.

DEDA acquired the specialized facility in 2005 when Northwest Airlines vacated the base and has worked diligently with APEX and other partners to market it. DEDA has invested to keep the facility in turnkey condition—something that impressed AAR officials. The region's highly skilled and available workforce also attracted the company. DEDA and the Minnesota Department of Employment and Economic Development organized a job fair in August 2011 that attracted over 320 qualified people with experience in aircraft maintenance and repair, while another 350 submitted resumes online.



Other incentives that helped secure the deal included \$350,000 in Building in Duluth (BID) dollars for refurbishment and construction, a low lease rate, and loans through the State of Minnesota, the 1200 Fund, Northland Foundation, Arrowhead Regional Development Commission, and the Minnesota Community Capital Fund (sponsored by Minnesota Power).

If all goes according to plans, AAR's Duluth operations will begin later this summer.

“

This agreement is a major step in establishing a presence in Duluth and increasing the value we provide to MRO customers. We want to thank Mayor Don Ness and the team at DEDA for their hard work and support. We hope to become an integral part of the Duluth business community in the coming months.

**Dany Kleiman, Group Vice President, of AAR's
Maintenance, Repair & Overhaul operations**

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DEDA Works — GROWING JOBS

Building in Duluth (BID)

When opportunity knocks, DEDA answers. That was the case with Building in Duluth (BID), a temporary incentive program that helped four growth-oriented companies complete major construction projects in 2011 and another one break ground—despite a sluggish national economy.

Encouraged by Mayor Don Ness, DEDA developed BID to create and retain jobs and to spur investment in private development. The Mayor is a strong supporter of economic development and wanted the City to take advantage of special legislation that temporarily broadened allowable uses of excess tax increment finance (TIF) dollars by creating a competitive process to advance shovel ready projects.

TIF is a public financing tool that dedicates additional property tax generated by a development, or “tax increment,” to pay for the project itself. Excess tax increment dollars normally go toward other improvements within a defined TIF district. As part of a statewide effort to stimulate growth, the Minnesota Legislature approved the use of uncommitted TIF funds for shovel-ready projects beyond district borders—provided that they could be completed by December 31, 2011. DEDA jumped on this opportunity and developed a competitive process to identify qualifying projects, help businesses take good projects off the shelf, and spur growth.

“Our goal was to identify projects that were close to getting off the ground and just needed a boost,” said Brian Hanson, Executive Director, DEDA. “The quality of proposals we received was outstanding.”

DEDA judged proposals on business plans, viability, shovel readiness, potential for job creation or retention, consistency with City planning regulations, and public benefits. It limited BID funding to a maximum of \$350,000 per project and stipulated that grants could not exceed 20% of the total project cost.

Five projects were initially selected, and four have tapped these resources. In addition, the Minnesota Legislature’s recent decision to extend the program through 2012 allowed DEDA to use BID funding as an incentive to attract Involta, Inc., a major enterprise data center that broke ground in September.



BID 2011 Projects

Moline Machinery/Cedar Bay North

Company type: Manufacturing

BID Conditional Grant: \$350,000 • Project Cost: \$2.6 million

Moline Machinery has been making industrial bakery equipment in Duluth for over 50 years and employs more than 70 people. BID funds helped Moline construct an Innovation Center, where customers from around the world can visit and “test run” a commercial-scale line of bakery equipment to see how it operates before they buy.

“

The BID award pushed our project over the top for construction in 2011. Without the grant, we would not have built this year.

Gary Moline, President, Moline Manufacturing

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GeaCom/Dewitt-Seitz Marketplace

Company Type: Manufacturing

BID Conditional Grant: \$200,000 • Project Cost: \$1,086,000

GeaCom effectively communicated its need for BID funds to expand in the Dewitt-Seitz building. The high-tech manufacturer has developed a hand-held medical communication device called The Phrazer. It helps healthcare providers communicate with patients across multiple cultures and languages. GeaCom plans to expand its business and is part of Duluth's growing healthcare technology cluster.

“

BID funding has provided us not only with additional space to expand in Canal Park but also with the ability to share with partners Duluth's support of growing businesses.

Mat Johnson, CEO, GeaCom

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Miller Dwan Foundation/Amberwing LLC

Company Type: Service

BID Conditional Grant: \$350,000

Project Cost: \$4,964,000

Amberwing is an innovative mental health and wellness center developed by Miller Dwan Foundation for children, adolescents, young adults, and their families. Scheduled to open in 2012, it is located on a wooded property at Rice Lake Road and Pecan Avenue, providing a quiet, natural, home-like environment for hope and healing.



Old City Hall Restoration

Company Type: Mixed Use

BID Conditional Grant: \$350,000

Project Cost: \$1,864,999

Historic preservation is important to many Duluth residents. Developers Rod Raymond and Tim Nelson have taken great care to restore and renovate Duluth's Old City Hall building on East Superior with respect to its place in history. BID funds are helping transform the building into a mixed-use development with a themed bar and restaurant that honors Duluth's founders. Developers are reinvesting historic preservation tax credits from this project into restoring another downtown Duluth building, giving DEDA twice the bang for its buck.

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BID projects supported by DEDA encourage the growth of new industries like data centers and also support traditional solid-base industries such as health care and manufacturing.

Brian Hanson, DEDA Executive Director

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DEDA Works— ATTRACTING NEW INDUSTRIES

BID Business Attraction Feature

Involta

Company Type: Service
BID Conditional Grant: \$350,000
Project Cost: \$10,500,000

Involta is the type of business that could have gone anywhere. Yet, the Iowa-based company chose Duluth for a \$10.5 million high security data storage facility, under construction in Duluth Technology Park, and reuse of a building in downtown Duluth.

DEDA helped lead the recruitment effort, along with the City of Duluth, APEX, Minnesota Power, and St. Louis County. Incentives that attracted the company included tax increment financing through DEDA for infrastructure, a \$350,000 BID conditional grant, special designation of the property as a tax-free JOBZ site, and robust energy and infrastructure.

Involta's enterprise data center will house mission critical data, computer systems, and related components for healthcare organizations, businesses, governments, and educational institutions. A number of area businesses, including Essentia Health and SISU, plan to lease space in the data center for critical storage and processing. Involta officials expect the facility to be up and running by the third quarter of 2012.



DEDA considers many factors when deciding whether to support business attraction and retention projects:

- Number of jobs created or retained
- Strategic fit in the city, region, or state
- Impact on existing businesses and value chains
- Market growth potential and business plan strength
- Private investment
- Capabilities and track record
- Impact on the community
- Return on investment

“

(Duluth) put all of the pieces together and made it a project we could easily walk into. It is unlikely this project would have made it out of the planning stages without the assistance.

Bruce Lehrman, Chief Executive Officer, Involta

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DEDA Works — PRESERVING ASSETS

NorShor Agreement Takes Center Stage

Duluth's NorShor Theatre is in the limelight with an agreement that could see the historic building renovated and reopened as a community arts and entertainment facility by 2014.

DEDA purchased the NorShor Theatre, NorShor Annex, and adjacent Temple Opera building in 2010, hoping to preserve the theater complex and secure its future as a crown jewel and entertainment hub of Duluth's Downtown Waterfront District. Staff and commissioners spent more than a year working closely with consultants, architects, and local arts enthusiasts to explore renovation options and identify potential investors.

Early in 2012, DEDA announced a memorandum of understanding with Sherman Associates, Inc., a Twin Cities-based developer that owns the nearby Sheraton Duluth Hotel and Greysolon Plaza. Under the proposed deal, DEDA will deed the NorShor and Temple Opera buildings to the developer in exchange for its commitment to restore the theater into a marquee performance center.

The \$19 million project will be financed through a combination of state and federal tax credits, low-interest loans, and fundraising. In addition, DEDA will construct a skywalk through the buildings, connecting them to the Greysolon Plaza.

DEDA and City officials believe restoring the NorShor Theatre and linking it into the skywalk system will help usher in a new era of arts, entertainment, and entrepreneurial prosperity in Duluth's historic downtown district.

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I'm thrilled. This particular package is about as great as it gets. We have a developer who already has demonstrated that he is a strong part of downtown Duluth and is bringing in millions of dollars to make this project happen. DEDA's investment will be leveraged over and over again.

Emily Larson, Duluth City Councilor and DEDA Commissioner

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DEDA Works — DEVELOPING SITES

Atlas Industrial Park Cements Its Future

Site remediation and new infrastructure at DEDA's Atlas Industrial Park are paving the way for business development in Duluth's Morgan Park Neighborhood. DEDA purchased the former Atlas Cement site in 2003, with the goal of developing an industrial park for light manufacturing and technology companies. It recently secured grants through the Minnesota Department of Employment and Economic Development for contamination clean up and construction of roads and utilities. Ikonics, a leader in photo-imaging technology, currently occupies 11 acres of the original 62 acre parcel and intends to purchase an additional 4 acres.

Atlas Industrial Park is near the former U.S. Steel plant, a portion of which is being developed into an industrial park by the Duluth Seaway Port Authority. Both projects are expected to stimulate business investment and bring needed jobs back to the neighborhood.

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DEDA's work at Atlas is addressing environmental concerns, preparing sites, and helping Duluth create a sustainable future, especially for the immediate neighborhoods of Morgan Park and Gary-New Duluth.

**Heidi Timm-Bijold, Business Resources Manager,
City of Duluth and DEDA**

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DEDA Works — SECURING FUNDS

Grants advance Bayfront Redevelopment

A major redevelopment project in Duluth's waterfront got a boost in spring 2012, thanks to DEDA's experience securing and administering competitive state and federal grants.

DEDA was awarded nearly \$1 million from the Minnesota Department of Employment and Economic Development (DEED) to jump start the Bayfront redevelopment project. DEDA and Pier B Investment Group are planning the project, which would include a hotel and conference center, condominiums, retail shops, and recreational facilities on DEDA owned land and the former Lafarge Cement plant site. The grant will be used to stabilize a crumbling seawall, adapt the existing cement silos for reuse, construct a sanitary sewer system, and support additional infrastructure, making the project more attractive to private investors.

In addition to this Redevelopment grant, DEDA has previously secured DEED and Environmental Protection Agency contamination investigation monies in anticipation of submitting a contamination clean up request to DEED for the Pier B project.

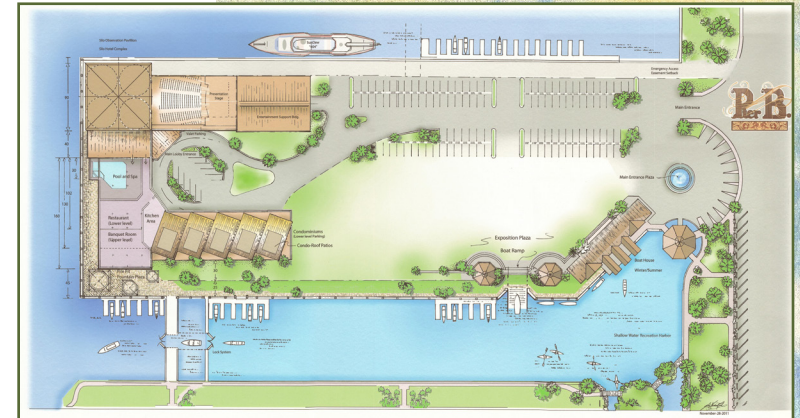
The project is part of a larger Bayfront Master Plan to secure Duluth's treasured waterfront for the greatest public benefit. DEDA and the Minnesota Department of Natural Resources received funds from the U.S. Fish and Wildlife Service to develop comprehensive site plans. An initial proposal, featuring a marina and waterfront promenade, was revealed to the public in June 2011. Pier B is planning a 2014 grand opening.

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We would not have accomplished this without the support of DEDA, the City, and their dedicated staff. The Pier B investors feel reinvigorated and are excited to move forward on this visionary project that will make Duluth a premier destination city.

Sandy Hoff, Pier B Investment Group

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DEDA Works — FOR PROSPERITY

Attracting and retaining a healthy mix of businesses is vital for the prosperity of our community and its residents. The City of Duluth is fortunate to have DEDA as a dedicated, professional partner that effectively uses all available tools and resources to advance long-term economic growth.

DEDA is not alone in its commitment to expand economic prosperity. The Duluth Prosperity Agenda, developed under the leadership of Mayor Don Ness, focuses on improving Duluth's business climate, growing quality jobs, promoting a skilled workforce, and raising the income levels and quality of life for residents. It aims to improve the life of every resident by identifying and addressing issues that impact community health, vitality, and sustained prosperity.

The year ahead is full of promise. The Duluth City Council has identified economic development as a top priority for 2012 and is dedicating several meetings to an in-depth review of the City's progress and potential. A major initiative is being launched to create a detailed economic development plan for Duluth. DEDA will partner with the City in this project to ensure uniform goals and consistent strategies.

A lot has been accomplished, but more remains to be done. Duluth is open for business with DEDA as a partner. **DEDA...it works!**

For more information or to learn how DEDA can assist your business, please contact us at:

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